

THE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2012 AND 2011

THE ACADEMY CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Academy Charter School

We have audited the accompanying statements of financial position of The Academy Charter School as of June 30, 2012 and 2011, and the related statements of activities and cash flows for years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Academy Charter School as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2012 on our consideration of The Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of functional expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

Loeb Group + Company, LLP

Certified Public Accountants

New York, New York
October 22, 2012

THE ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 80,085	\$ 65,001
Construction cash	18,160	582,059
Restricted cash	76,316	75,744
Debt service escrow	1,235,199	1,725,422
Other receivable	462,902	506,502
Grants and contracts receivable	76,190	127,507
Deferred expenses	743,913	803,775
Prepaid expenses	5,004	51,806
	2,697,769	3,937,816
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	9,300,866	8,278,497
OTHER ASSETS		
Security deposits	17,160	32,775
	\$ 12,015,795	\$ 12,249,088

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Bonds payable	\$ 115,000	\$ -
Accounts payable	88,766	79,247
Accrued expenses	339,634	218,964
Accrued interest payable	-	221,366
Obligation under capital lease - current portion	68,826	-
	612,226	519,577
Total Current Liabilities	612,226	519,577
Bonds payable, less current portion	10,625,000	10,740,000
Obligation under capital lease	173,395	-
	11,410,621	11,259,577
Total Liabilities	11,410,621	11,259,577
NET ASSETS - UNRESTRICTED	605,174	989,511
Total Liabilities and Net Assets	\$ 12,015,795	\$ 12,249,088

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30,

UNRESTRICTED NET ASSETS	<u>2012</u>	<u>2011</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 6,201,112	\$ 4,489,415
Grants and Contracts		
State and local	235,507	76,536
Federal - Title and IDEA	114,998	84,324
Interest and other income	2,211	2,932
Contribution - Foundation/Individual/Corporation	<u>130</u>	<u>840</u>
Total Public Support and Revenue	<u>6,553,958</u>	<u>4,654,047</u>
EXPENSES		
Program Expenses		
Regular education	5,554,691	3,634,312
Supporting Services		
Management and general	<u>1,383,604</u>	<u>534,767</u>
Total Expenses	<u>6,938,295</u>	<u>4,169,079</u>
CHANGE IN NET ASSETS	(384,337)	484,968
NET ASSETS		
Beginning of year	<u>989,511</u>	<u>504,543</u>
End of year	<u>\$ 605,174</u>	<u>\$ 989,511</u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ (384,337)	\$ 484,968
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	454,204	93,605
Amortization	23,447	-
Changes in Assets and Liabilities		
Other receivable	43,600	(500,668)
Grants and contracts receivable	51,317	173,241
Prepaid expenses	46,802	(38,414)
Due to management company	-	(5,456)
Unearned income	-	(10,024)
Accounts payable	9,519	44,600
Accrued expenses	120,670	(29,386)
Accrued interest payable	(221,366)	221,366
Security deposits	15,615	(12,775)
Obligation under capital lease	242,221	-
	401,692	421,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(572)	(752)
Debt service escrow	490,223	(1,725,422)
Acquisition of fixed assets	(1,476,573)	(8,089,803)
	(986,922)	(9,815,977)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred expenses	36,415	(803,775)
Bonds payable	-	10,740,000
	36,415	9,936,225
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(548,815)	541,305
CASH AND CASH EQUIVALENTS		
Beginning of year	647,060	105,755
End of year	\$ 98,245	\$ 647,060
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 740,345	\$ -

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

1. Organization

The Academy Charter School ("The School"), a 501 (c) (3) tax-exempt organization, is a public charter high school located in Hempstead, New York. The School was granted a five year charter in February 2009 and commenced operating classes for kindergarten through second grade in September 2009, and added third and fourth grade classes in 2010 and 2011. The mission of the school is to offer an interdisciplinary curriculum in a technology rich environment that challenges students to explore connections across subjects and use experiential learning to bridge the gaps between theory and practice. Enrollment is open to all potential student candidates, with those residing in the immediate area given first preference.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

f) Cash and Cash Equivalents

The School maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and equivalents.

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

e) Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. Summary of Significant Accounting Policies (Continued)

b) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- a) Unrestricted net assets – Net assets that are not subject to grant or donor-imposed stipulations.
- b) Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2012 and 2011.
- c) Permanently restricted net assets – Net assets subject to grant or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2012 and 2011.

Furthermore, information is required to segregate program service expenses from support expenses.

c) Donated Services

No amounts are reflected in the financial statements for donated services, as the services do not meet the specialized skill requirements prescribed under accounting principles generally accepted in the United States of America.

e) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. Summary of Significant Accounting Policies (Continued)

e) Property and Equipment

Purchase of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

Construction in progress includes the cost of construction and other indirect costs attributable to the construction. No provision for depreciation is made on construction in progress until the assets are placed in service.

g) Income Taxes

In December 14, 2010 The Academy Charter School filed and received approval of its application for tax exempt status from the Internal Revenue Service under section 501(c)(3) of the Internal Revenue code and has been classified as a publicly supported organization as described in Internal Revenue Code section 509 (A)(1) and 170 (B)(1)(A)(II).

Management believes that the organization has no uncertain tax positions that would require financial statement recognition. The organization filed its initial federal tax return form 990 for the calendar year 2009 which is still subject to income tax examination by federal, state and local tax authorities.

i) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Restricted Cash

Under the provisions of its charter, the School established a bank account to pay for any legal and audit expenses that would be associated with a dissolution should it occur.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and to staff for payroll earned during the school year but paid out over the summer months.

5. Pupil Enrollment and Other Revenues From Government Agencies

Under the Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from governmental sources that are available to public schools. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

The amounts are based upon actual amounts received as well as estimates by the management based upon the best information available at the time. However, actual amounts received, as determined by the funding source, could vary based on changes in the factors used to calculate the amounts owed.

6. Defined Contribution Plan

The School offers a 401(k) plan for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$38,966 and \$24,747 for the years ended June 30, 2012 and 2011. Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

7. Property and Equipment

At June 30, 2012 and 2011, property and equipment consisted of the following:

	<u>2012</u>	<u>2011</u>	<u>Estimated Useful Life</u>
Building	\$4,950,000	\$4,950,000	39.5 years
Land	550,000	550,000	-
Building improvements	3,016,381	58,673	39.5 years
Construction in progress	242,221	2,531,133	-
Furniture and fixtures	488,451	108,147	7 years
Computer and office equipment	<u>602,882</u>	<u>234,081</u>	5 years
	9,849,935	8,432,034	
Less: Accumulated depreciation	<u>(549,069)</u>	<u>(153,538)</u>	
Total	<u>\$9,300,866</u>	<u>\$8,278,497</u>	

Depreciation expense for the years ended June 30, 2012 and 2011 was \$454,204 and \$93,605.

8. Management

Victory Education Partners (“Victory”) manages the operations of the School under a management agreement executed on June 30, 2009. Under the Agreement, Victory assumes responsibility for all tasks and functions associated with the educational services to be provided to the children enrolled as students at the School in accordance with the terms of the charter and the Charter Schools Act, subject to the appropriate oversight from the School’s Board of Trustees. Victory is responsible for designing the curriculum, acquiring educational materials, hiring all staff, and providing all financial and accounting functions.

In providing these services, Victory is paid a service fee in the amount equal to total full-time equivalent enrollment of students multiplied by \$2,096 on yearly basis. The Per Pupil Fee is increased or decreased each year by the percentage increase or decrease in the Basic Education Funding and Special Education Funding for Charter Schools in the School District of Hempstead as calculated by the New York State Department of Education annually.

For the years ended June 30, 2012 and 2011 the service fee was \$716,080 and \$524,367.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

9. Bonds Payable

On March 23, 2011, The Town of Hempstead Local Development Corporation provided financing through the issuance of \$10,505,000 in Tax-Exempt Education Revenue Bonds (the "Series 2011A Bonds"), bearing interest at 8.25% per annum with principal due at maturity on February 1, 2041, and \$235,000 in Taxable Education Revenue Bonds (the "Series 2011B Bonds"), bearing interest rate at 8% per annum with principal due at maturity on February 1, 2014. For the year ended June 30, 2012, interest expense was \$740,345

According to the loan agreement, the School is required to maintain debt service accounts with principal due February 1, and interest due February 1, and August 1, of each year.

Future minimum principal payments for the next five years are as follow:

Fiscal year ending June 30

2013	\$ 115,000
2014	120,000
2015	115,000
2016	125,000
2017	135,000
2018 and thereafter	<u>10,130,000</u>
Total	<u>\$10,740,000</u>

10. Commitments

In September 2009, The School entered into operating lease agreements for equipment. The lease requires monthly payments of \$930 through November 2012.

Future minimum lease payments for the next three years are as follow:

Fiscal year ending June 30

2013	\$4,374
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Equipment lease expense was \$11,164 for the year ended June 30, 2012 and 2011.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

11. Capital Lease

In July 1, 2012, the School obtained equipment, pursuant to a capital lease agreement. The lease terminates in June 2015 and requires monthly lease payments of \$8,741 with interest of 19%.

Future lease payments for the years ending June 30 for the aforementioned lease are as follows:

2013	\$ 68,826
2014	78,548
2015	<u>94,847</u>
Obligation under capital lease	<u>\$242,221</u>

12. Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

13. Subsequent Events

Management has evaluated subsequent events through October 22, 2012, the date that financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012
(With Summarized Comparative Information for the Year Ended June 30, 2011)

	<u>Regular Education</u>	<u>Management & General</u>	<u>Total</u>	<u>Total 2011</u>
Personnel Expenses				
Salaries and wages	\$ 2,635,308	\$ 280,895	\$ 2,916,203	\$ 2,129,144
Payroll taxes and fringe benefits	550,694	58,698	609,392	471,529
Pension	35,213	3,753	38,966	24,747
Total Personnel Expenses	<u>3,221,215</u>	<u>343,346</u>	<u>3,564,561</u>	<u>2,625,420</u>
Operating Expenses				
Contracted services - financial and administrative	-	716,080	716,080	524,367
Administrative	29,986	3,196	33,182	39,951
Marketing and recruitment	12,453	1,327	13,780	10,373
Insurance	38,047	38,523	76,570	48,944
Legal and professional	14,567	42,540	57,107	33,550
Repairs and Maintenance	145,510	15,510	161,020	124,133
Equipment and furnishings	140,162	14,940	155,102	6,095
Rent	19,249	2,078	21,327	217,864
Staff development	48,556	5,175	53,731	91,124
Student services	19,899	2,121	22,020	37,351
Supplies and instructional materials	312,645	33,325	345,970	189,289
Telephone and internet services	26,828	2,860	29,688	32,932
Utilities	92,412	9,850	102,262	34,107
Interest expense	669,050	71,295	740,345	-
Real estate taxes	244,150	26,017	270,167	-
Depreciation	410,454	43,750	454,204	93,605
Amortization	21,189	2,258	23,447	-
Other expenses	88,319	9,413	97,732	59,974
Total Operating Expenses	<u>2,333,476</u>	<u>1,040,258</u>	<u>3,373,734</u>	<u>1,543,659</u>
TOTAL EXPENSES	<u>\$ 5,554,691</u>	<u>\$ 1,383,604</u>	<u>\$ 6,938,295</u>	<u>\$ 4,169,079</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
The Academy Charter School

We have audited the financial statements of The Academy Charter School as of and for the year ended June 30, 2012 and 2011, and have issued a report thereon dated October 22, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of The Academy Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered The Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Academy Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Academy Charter School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Koch Group + Company, LLP

Certified Public Accountants

New York, New York
October 22, 2012